GOLDEN VENN

MARKET REPORT
OCTOBER 2016

SALES MARKET

Growth across London is slowing, with the average price of a property up just 1.3% in the month of August to £488,908 according to the UK House Price Index. While annual growth across London remains high (12.1%), all signs are that this will soften over the coming months. The latest survey by the Royal Institute of Chartered Surveyors reports that agents across the capital believe that price growth will fall into the autumn, with little change in prices expected over the next 12 months.

In prime central London (PCL), Knight Frank report that price growth in the year to September was -2.1%, although this masks significant regional divergences. While the lower end of the market, (properties less than £1 million), continues to perform best, Knight Frank believe activity above £2 million is showing tentative signs of improvement. The number of prospective buyers for properties priced £2 million - £5 million rose 8.7% this year compared to same period last year, while in the three months to the end of August viewings on properties between £2 and £5 million rose by more than 66% compared to the same period last year.

The unexpected Brexit result has undoubtedly been a catalyst for overdue price reductions. Vendors are finally accepting that in order to achieve a sale they need to take account of the stamp duty changes that have beset the market since the start of 2015. Favourable currency conditions from overseas buyers have helped create some momentum in recent months, although transaction levels remain nearly 20% down compared to 2015. It is clear that buyers remain cautious, with the average number of days property remained on the market 14% higher between January and August 2016 versus the same period in 2015.

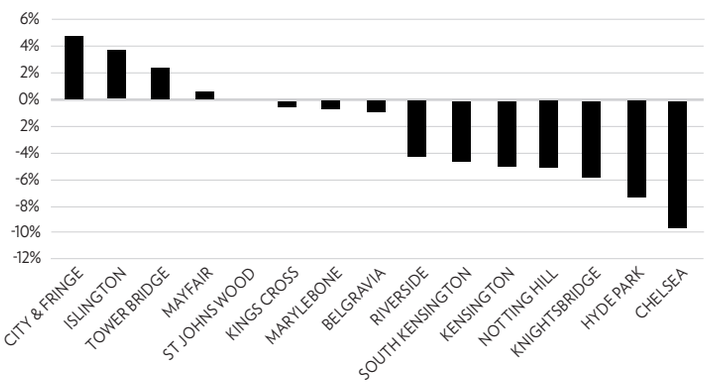
FISCAL POLICY

The government will publish its Autumn Statement on November 23rd. The Chancellor has already confirmed that balancing the UK's books by 2020 will be dropped and a possible 'fiscal reset' for the UK has been hinted at. Many are expecting considerable infrastructure investment including a £3 billion fund to boost housing construction, with current new rates of building considerably below the 200,000 homes per year target. Whether concessions to the current SDLT regime are made in light of the stagnant London market remains to be seen. Independent forecasts published by the Treasury indicate that house prices across the UK will rise by 3.5% in 2016, slowing to just 0.1% growth across 2017.

ECONOMIC BACKDROP

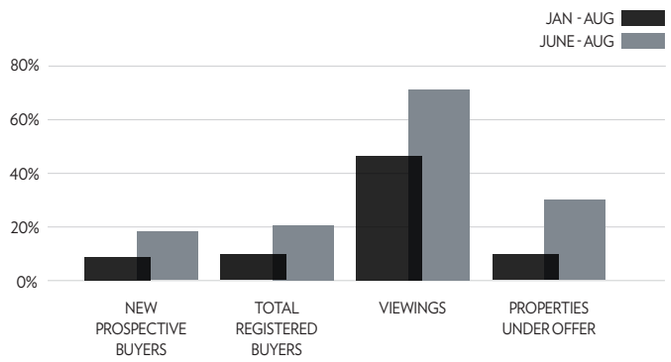
September saw a suite of positive announcements on the economy. The GfK consumer confidence index rose back to pre-Brexit levels, while Markit reported that the output from the construction sector expanded for the first time since May. However, the announcement by the Prime Minister at the beginning of October that UK will trigger Article 50 by the end of March sent the financial markets tumbling. The value of Sterling against the US Dollar is now 19% lower than pre-Brexit. In contrast, the stock markets have reached record highs as the FTSE 100 closed at 7,097.50. All indications are that inflation will rise over the coming months, with many expecting an overshoot of the government's 2% target during 2017.

PRICE GROWTH BY AREA TO SEPTEMBER 2016



Source: Knight Frank

DEMAND STRENGTHENS IN HIGHER PRICE BRACKETS*



Source: Knight Frank. *Leading indicators between £2 million and £5 million, 2016 vs 2015

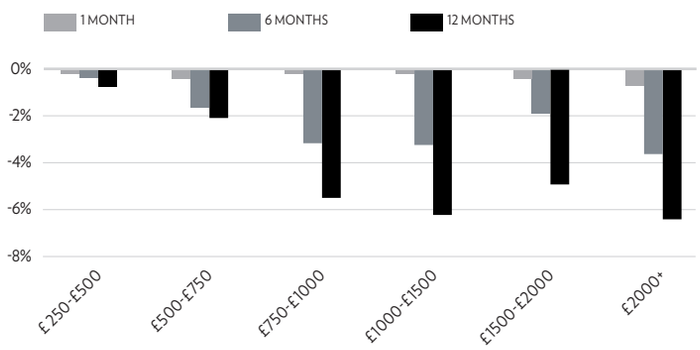
RENTAL MARKET

As uncertainty persists across the prime London sales market, it is no surprise that interest in the rental market has heightened considerably. Rightmove report that there has been a 15% increase in newly-marketed properties across the capital in Q3 2016 compared to last year (UK increase of just 6%). Knight Frank stated that the number of prospective tenants, viewings and properties let rose considerably in the three months to the end of August compared to last year.

Supply rose by 43.8% in the last three months to August over the same period last year. Such an increase in supply has led to increased pressure on rental values. Homelet report that average rents across Greater London fell by 0.4% in September compared to August, with annual growth of 3%, down from 4.8% in the year to September 2015. Across prime central London, Knight Frank report that rental values have fallen 4.7% in the year to September, although this does vary by market area. Across the Kings Cross and City and Fringe areas to the east of the city, average prices are up slightly on last year, with Marylebone, Chelsea and south Riverside areas experiencing the largest falls. Such a fall in values does mean that many tenants have been able to widen their search areas to include previously unaffordable areas of prime central London.

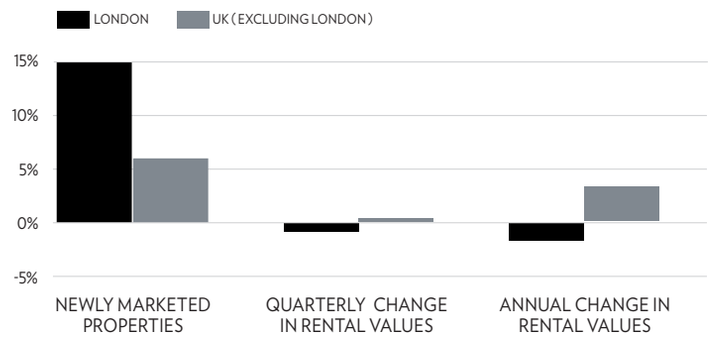
The fall in rental values is most acute at the upper value price brackets, with properties let for less than £500 per week only down -0.6% year on year compared to those priced between £1,000-£1,500 per week where annual price growth fell by 7%. Knight Frank report that September proved a strong month for super-prime lets (£5,000+ per week), no doubt a reflection on wider economic conditions. Such tenants may either be unable to purchase a suitable property for what they consider to be a realistic price, especially considering SDLT charges, or are preferring to bide their time until the market stabilises.

RENTAL VALUE GROWTH IN PRIME CENTRAL LONDON BY PRICE BRACKET



Source: Knight Frank, September 2016

LONDON SUPPLY RISES BUT PRICES FALL



Source: Rightmove to end of Q3 2016

GOLDEN VENN PERSPECTIVE

The weaker pound, as well as long overdue price adjustments, has led to increased interest from foreign investors in the prime central London market. In the short term this is encouraging for transaction levels, although these are likely to remain mooted until the market receives more clarity following the triggering of Article 50. It is also encouraging that demand has begun to strengthen in higher-price brackets across the prime central areas of the capital, an indication perhaps of the global appeal of London. At Golden Venn we believe that presently, more so than at any other time since the economic crash, investors who are seeking either yields or capital appreciation have to adapt to, and consider less conventional opportunities. These include purchase of commercial property or residential property in outer London areas where annual growth remains in double digits. As prices in prime areas have risen, buyers have sought to purchase further out where property is more affordable, and with the imminent arrival of Crossrail, higher demand and shortage of supply have led to sharp increases in house price growth in these areas (Reuters). Commercial property has also been quite active. Yields in growth sectors, such as student accommodation are stronger than for residential property and such purchases are not subject to the same heavy burden of property taxation. At Golden Venn overall we remain positive and seek to capitalise on any opportunities permeating the current market conditions.

Golden Venn is a boutique firm specialising in advising international buyers on the acquisition of investment properties in prime central London and other major cities around the world.

Eirini Nousia
42 Brook Street
Mayfair
London W1K 5DB

+44 (0) 20 7117 6324
+44 (0) 77 8662 4376
eirini@golden-venn.com
www.golden-venn.com